

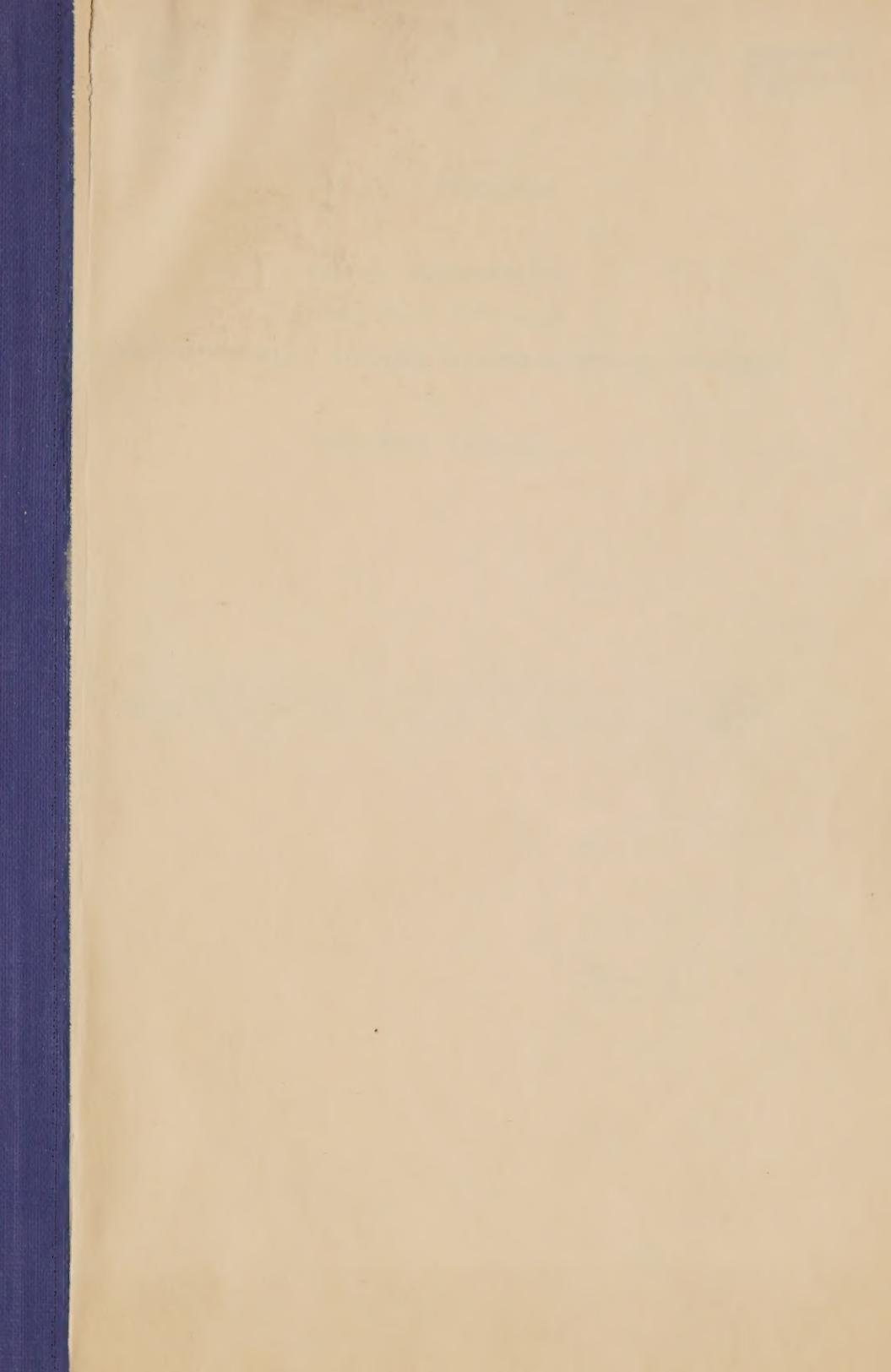


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Ontario Hydro-Electric Inquiry
Commission, 1922-1924

Government
Publications

SALIENT FINDINGS

—
OF

ROYAL COMMISSION

APPOINTED TO INVESTIGATE

GOVERNMENTALLY OWNED HYDRO-ELECTRIC SYSTEMS

IN

ONTARIO, CANADA

ROYAL INQUIRY COMMISSION APPOINTED UNDER LETTERS PATENT, BY ORDER-IN-COUNCIL,
TORONTO, CANADA, APRIL 13, 1922, TO INQUIRE INTO THE WORK OF THE HYDRO-ELECTRIC
POWER COMMISSION OF ONTARIO, AND REPORT THE EVIDENCE AND FACTS FOUND.



SUMMARIZED BY
SAMUEL S. WYER
CONSULTING ENGINEER, COLUMBUS, OHIO
FEBRUARY 11, 1925

CANADIAN
CONSTRUCTIVE CRITICISMS

REGARDING

GOVERNMENTALLY OWNED HYDRO-ELECTRIC SYSTEM IN ONTARIO

"The Taxing of Public Utilities"

"In his report to the Smithsonian Institute Engineer Wyer claimed that Hydro rates would be 10 per cent higher if the publicly-owned power enterprise paid full municipal and governmental taxation. Some local authorities say that the difference in rates due to partial exemption from taxation amounts to 30 per cent.

Whichever figure is more nearly correct the Hydro and all publicly-owned utilities should be required, except in extraordinary cases to pay the same taxation that they would pay if privately owned. An exception might be made to some extent in connection with the municipal taxation on a large plant owned by a group of municipalities.

"The practice of exempting from taxation this and that class of property has been carried to an extreme. Those who are given service by a public utility should pay the full cost, which they are not doing so long as the utility receives preferred treatment in the matter of taxation."—*Editorial in Toronto Star February 9, 1925.*

"Effect on Tax Payers of Non-Taxation of Municipally Owned Utilities"

"Do the citizens know how much is added to their tax burdens by the exemption, or partial exemption, from taxation of municipally-owned utilities? Do they know what the surpluses or deficits on public utilities would be if provision for taxes were made as in the case of similar private undertakings? Do all citizens give full weight to the value, from the standpoint of efficient operation, of requiring all public utilities to make full provisions for all elements of cost, including taxes?

When, however, the city goes into a business in competition with taxpayers, it is not merely a matter of making it self-sustaining or including taxes in the cost. Whenever a municipality enters the competitive field, it tends to narrow the basis of tax support, either by driving private enterprises out of business or diminishing their taxpaying ability."—*Toronto Bureau of Municipal Research, White Paper No. 80.*

"Why Hydro Should Pay Rent"

"Premier Ferguson's intimation that the Ontario government proposes to charge the Hydro Commission a fair rental for the water used in the development of electric power is regarded in business and financial circles as indicating that Sir Adam Beck's projects are being brought to a sound business basis. It is believed also that the government is bringing pressure to bear upon the Hydro to make up the deficits in sinking funds which have been revealed as the result of investigations of the Gregory Commission and the Smithsonian Institution and were first pointed out a couple of years ago in a report to the Bond Dealers Association of Canada. These deficits now approach \$20,000,000 and are regarded as a big factor in the shortage of sinking funds in connection with provincial finances—although there is no definite information available on this point. Higher rates on the basis of service-at-cost would seem to be the logical consequence of these developments.

The idea that the Hydro should pay water rentals has long been advocated by THE FINANCIAL POST not only to put the Hydro on a fair competitive basis with private power companies, but to provide income for the pro-

vince. Niagara Falls belongs to all the people of the Province of Ontario and those who benefit from Niagara power should be willing to pay for the benefits derived.

Likewise users of power should be prepared to pay a charge which will provide sinking funds as well as operating charges. The report of Engineer Wyer to the Smithsonian Institution, pointing out sinking fund deficits is being widely circulated among American financial houses and investing institutions, and threatens to become an adverse factor in regard to Ontario's borrowing market. *Sir Adam Beck has replied to Mr. Wyer with a lot of loose statements, but he has failed to meet the facts altogether.* Sir Adam's answer may serve political purposes in Ontario, but it will not go far with the experts of the financial houses who market Ontario's bonds.

Typical of the adverse advertising Ontario is receiving, is an article occupying the entire front page of the United States Investor which summarizes the Wyer report under the heading, "The Ontario Hydro's Unpaid Bills—A Story of Government Operation." In this article the point is very effectively made that:

"Government operators are always careful to get a rate sufficient to cover operating expenses, but they seem unable to understand the meaning of financial expenses."

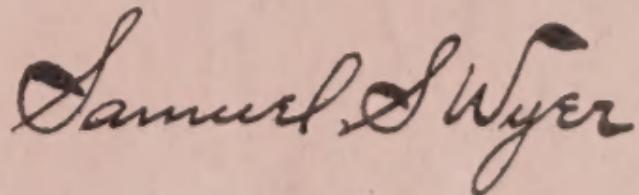
The charging of fair water rentals and the enforcement of adequate sinking fund provisions are two of the steps advisable to bring the Ontario Hydro to a sound business basis."—*Financial Post, Toronto, February 27, 1925.*

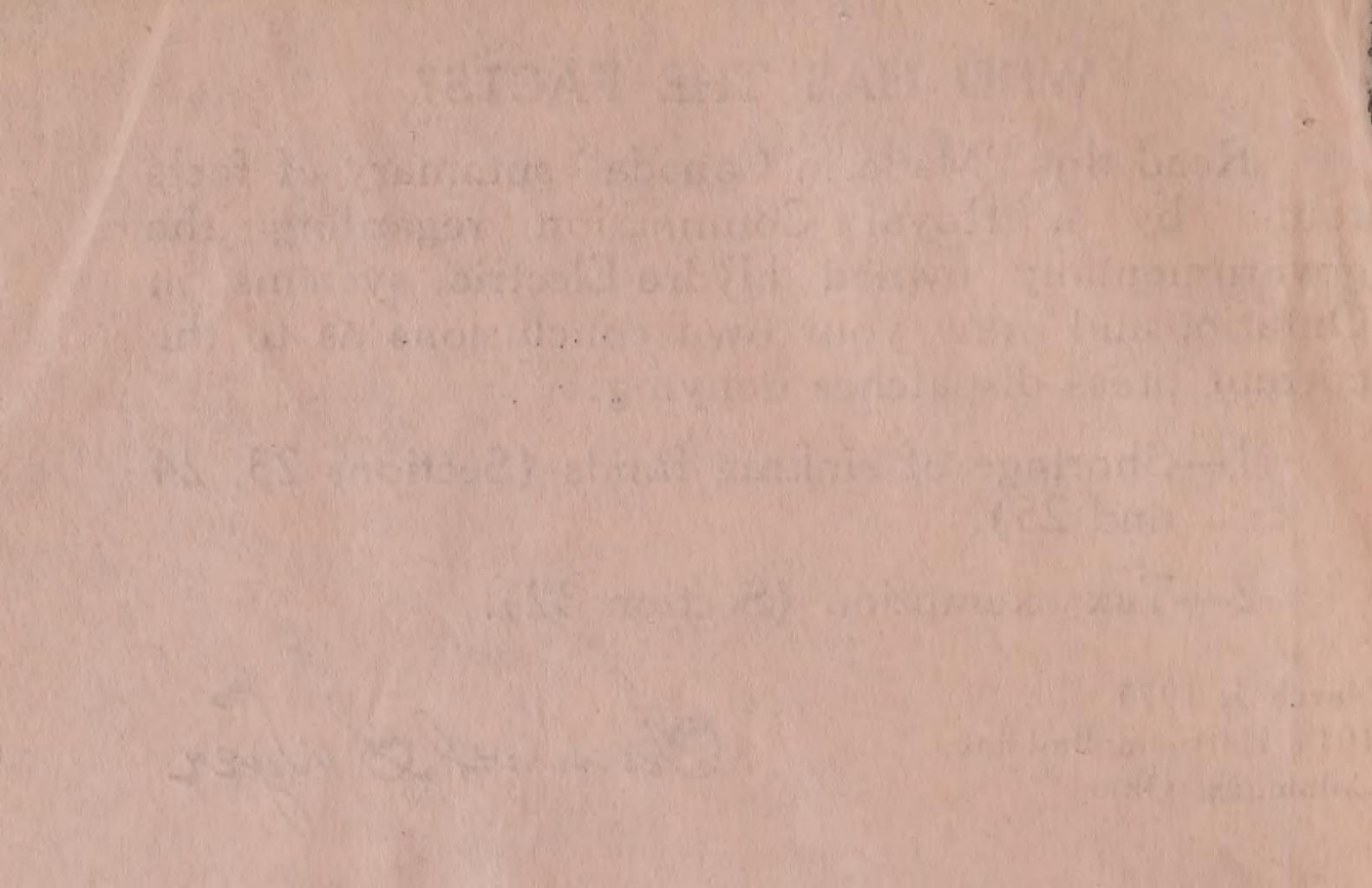
WHO HAS THE FACTS?

Read this "Made in Canada" summary of facts found by a Royal Commission regarding the governmentally owned Hydro-Electric systems in Ontario, and draw your own conclusions as to the current press dispatches denying:

- 1—Shortage of sinking funds (Sections 23, 24 and 25).
- 2—Tax exemption (Section 32).

March 5, 1925
1014 Hartman Building,
Columbus, Ohio.

A handwritten signature in cursive ink, reading "Samuel S. Wyer".



"The great tragedy of science—the slaying of a beautiful hypothesis by an ugly fact."—Huxley.

\$35,000,000 SHORTAGE IN ONTARIO'S SINKING FUND

The current news dispatches denying and evading the recent finding that "electric consumers from the governmentally owned Hydro-Electric system in Ontario have failed to pay the actual cost of the service they have received by more than \$19,000,000" have brought to light an interesting Canadian report.

This study was directed by Mr. MacKenzie Williams, (Union Bank Building, Toronto, Ontario, Canada) Chairman of the Committee on Municipal Administration and Finance, in 1923, of the Bond Dealers' Association of Canada, but was kept under cover until the recent showing that Ontario's governmentally owned Hydro-Electric system was selling service not "at cost" but "at cost of the public." The major part of the provincial debt of Ontario is for money advanced to its Hydro. "The only way that the deficits that have accrued can be wiped out is by increased taxation or by raising electric rates so as to make the electric consumers pay for the cost of the service they are receiving."

The findings of the Bond Dealers' Association are verbatim as follows:

"Examination of the state of provincial sinking funds reveals conditions which can hardly be credited. We have examined the individual outstanding funded debts in connection with each province and have calculated the sinking funds at 4½% which should now be on hand to retire funded obligations as at their maturity."

"A comparison of the present sinking fund in hand with the calculated sinking fund brings out in clear contrast the insufficiency of present sinking fund policies of each of our provinces."

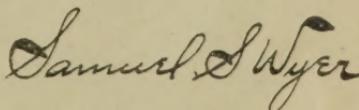
Thus, for the Province of Ontario:

"The calculated amount of sinking fund at 4½% which should now be on hand to retire all outstanding issues at maturity \$44,870,333."

"Sinking fund in hand under the present policy 9,100,655."

"Present insufficiency of sinking funds under present policies to retire bonds at maturity \$35,769,678."

March 5, 1925
1014 Hartman Building,
Columbus, Ohio.



INTRODUCTION

Recently, while making a study of the Power Possibilities and Preservation Aspects of Niagara Falls, I was given access to the Gregory Commission report discussing the governmentally owned Hydro-Electric Power service in Ontario. This report had been withheld from the Canadian public, but I was permitted to make a summary of the salient features, which, of course, are the findings of the Commission and not my own personal views.

The Royal Inquiry Commission—popularly known in Canada as the Gregory Commission—was appointed under Letters Patent, by Order-in-Council, Toronto, Canada, April 13, 1922, to inquire into the work of the Hydro-Electric Power Commission of Ontario and report evidence and facts found. This Inquiry Commission consisting of W. D. Gregory, Chairman, and M. J. Haney, Lloyd Harris, J. Allan Ross and R. A. Ross, made a most exhaustive study of the financial and operating aspect of the Hydro-Electric Power Commission of Ontario. This inquiry produced a voluminous record of testimony, many special engineering and accounting studies and signed reports aggregating 1,224 pages giving the Commission's findings. This material is in typewritten form and not easily accessible to the public.

This Royal Commission made many complimentary observations regarding governmental ownership and the services rendered by the Hydro-Electric Power Commission of Ontario. However, the Royal Commission frankly faced the situation as found and the salient facts developed are here shown, in the form of verbatim quotations from the Royal Commission's reports, on pages 6 to 21 herein.

The Royal Commission's reports are listed with letters on page 4. The letter and page number after each verbatim quotation indicate the source of the quotation in reference to this list of reports.



Feb. 11, 1925.
1014 Hartman Building,
Columbus, Ohio.

LIST OF SIGNED ROYAL COMMISSION REPORTS

TYPEWRITTEN, AGGREGATING 1,224 PAGES.

- A—Cost of money advanced to the Hydro-Electric Power Commission of Ontario by the Province of Ontario.
- B—Central Ontario System
- C—Guelph Radial Railway
- D—Sandwich, Windsor, and Amherstburg Railway and Windsor and Tecumseh Electric Railway.
- E—Eugenia System
- F—St. Lawrence System
- G—The Ontario Power Company of Niagara Falls
- H—Examination of Auditor's Reports for Period 1916-1921 inclusive.
- I—Ottawa System
- J—Hydro-Electric Radial Railways
- K—Severn System
- L—Wasdell's System
- M—Muskoka System
- N—Rideau System
- O—Thunder Bay System
- P—Niagara System
- Q—History and general relations
- R—Thorold and Essex Systems and Bonnechere River Storage System.
- S—The Queenston-Chippawa Power Development—Volumes I, II, III, IV.
- T—General Reports—Volumes I, II.

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PART I

HYDRO-ELECTRIC POWER, COMMISSION OF ONTARIO

§1.—“Appointment of Hydro-Electric Power Commission.”

“It was in the year 1906 that the Legislature acceded to the demand of a number of municipalities in western Ontario and passed an act which, among other things, provided for the appointment of the Hydro-Electric Power Commission of Ontario (hereinafter called “the Commission”). The Province then entered upon a course which was bound to have a definite effect upon its economic structure.”—^{T 3}

“Since the passage of the Act of 1906, the powers and duties of the Commission have been greatly extended, not only by amendments thereto, but by other Statutes.”—^{T 19}

§2.—“Capital Involved.”

“From a purchaser and distributor of electric power the Commission has now become an owner and builder of power plants of such size as to enable it to generate nearly all the power which it sells; it also operates on behalf of the Province the Central Ontario System; it has taken over control or operation of radial and street railways, and has promoted a scheme for building and operating a great system of radial railways which would have involved, had it been proceeded with, an expenditure of many millions. The plants owned and operated by the Commission now generate more electric power than any other group of publicly-owned electric power plants in the world. The total capital involved in the undertakings referred to amounted at October 31, 1922, to about \$170,000,000 of which approximately \$160,000,000 has been advanced or guaranteed by the Province.”—^{T 3}

*The Hydro-Electric Power Commission of Ontario—popularly known as “The Hydro”—produces and transmits electric energy to the town borders of the various municipalities that are served, but does not distribute within the municipalities. Each municipality has its own local Commission handling the publicly owned plant within the municipality.

Wherever the term “commission” is used herein, it refers to the Hydro-Electric Power Commission of Ontario.

The term “Province” as used herein always means the Province of Ontario.

The Ontario Power Company is now controlled and operated by the Hydro-Electric Power Commission of Ontario.

The term “Queenston-Chippawa” refers to the new plant built near the village of Queenston and where the Niagara River water is brought to the plant by reversing the flow in Chippawa Creek and then going through a canal to the plant.

PART II

HYDRO-COMMISSION'S METHODS

§3.—“Misleading Statements.”

“The success of the publicly owned and operated utility for supplying electrical power or energy to the people of Ontario does not depend upon, but is rather hampered by, loose statements or estimates as to the actual or prospective cost of such electrical power or energy when such cost may be unduly enhanced by extravagant, unauthorized and unjustifiable cost of generating and transmission works. Nor is the cause of public ownership advanced by misleading statements in regard to the certainty as to the time within which and the extent to which municipal corporations which have entered or may hereafter enter into contracts with the Commission will acquire complete ownership of the works constructed or acquired for their benefit free from all encumbrances and in a condition approximately as good as new. In performing its function as administrator of a great public trust, the Commission ever should bear in mind that it was created by the Legislature, is financed by the Province, and its powers and authority are defined by the Statutes.”—^{r 230}

§4.—“Records * * * Loosely Kept.”

“From the beginning to end the records of the proceedings of the Commission were loosely kept. The original plans submitted by the Commission to the Government when the Development was authorized cannot be found.”—^{s 382}

§5.—“Merits of the Schemes.”

“The Chairman of the Commission, in the past, has frequently shown impatience at the suggestion that the Government should, before advancing the money asked for, look into the merits of the schemes for which it is asked. It seems to have been assumed that it is not for the Government to ask why, or to make reply, but to provide the funds. Frequently announcements of proposed developments have been made without having first been submitted to the Government for approval. The newspaper files of years gone by tell many an interesting story. They certainly show that the Chairman is an expert in the art of creating and organizing public opinion.”—^{q 76}

§6.—“Defiant Disobedience.”

“In his report of 1916, the Provincial Auditor describes the attitude of the Commission as one of ‘defiant disobedience’ to the law, and complains that information required by him has been withheld so that it has been found impossible to complete any audit or make any progress approaching completeness.”—^{h 2}

"The Commission throughout has shown an impatience of statutory restraints and a disregard of statutory obligations."—H 5

"The Commission and especially the Chairman of the Commission has habitually shown an impatience of Statutory restraints and a disregard of Statutory obligations. If the Government did not give the Commission what it wanted, when it wanted it, the Commission did not hesitate to use for such purposes as it saw fit, any moneys on which it could lay its hands. It has thus disregarded the conditions imposed by the Legislature when it voted the money. It is not easy to understand how it was that the Commission was permitted for such a long period to handle the funds that come into its hands with such incredible looseness."—
T 126 AND 127

§7.—"Acquiring Rights-of-Way."

"It is pertinent here to draw attention to the methods adopted by the Commission in acquiring rights-of-way for its transmission lines. We have been informed that the agreements practically forced upon owners of property over which the Commission desires a right-of-way are such that the value of the whole property is seriously depreciated and inadequate compensation is paid for the rights granted. It appears that under these agreements the Commission may erect its poles, towers, and other appliances not only along specified tracts of the property of the person with whom the agreement is made, but may at any time change the location of its lines and use any other portions of such person's property. The value to a present owner or prospective purchaser of property subject to such an agreement, is necessarily less than if the agreement merely provided for a right-of-way on a defined course."—T 150

§8.—"No Pre-Audit."

"Sir Adam Beck made the following statement describing the operations of the Hydro-Electric Power Commission of Ontario to the Committee on Water Power of the House of Representatives at Washington:

'I may say our accounts are subject to audit by an independent firm of Auditors—in fact, they pre-audit.'

"The foregoing extract is very far from being correct and it is surprising that it should have been made. Mr. Clarkson* makes no pre-audit and had never made one. When Mr. Clarkson was before us we questioned him on this subject:

'He (Sir Adam Beck) says we audited from month to month, and from day to day and from hour to hour, that we pre-audited. We did not pre-audit. We audited after the event. We were not pre-auditors.'"—H 37

*Auditor of accounts.

PART III

HYDRO-COMMISSION'S USE OF FUNDS

§9.—“Accounts of Commission are Short.”

“As matters now stand the accounts of the Commission are short over \$1,100,000. Whatever sum can be recovered should be recovered and restored to the Commission’s treasury. If it should be found that the amount taken cannot be wholly recovered, and if the Legislature does not see fit to make up the loss, the impairment will have to be made good by Hydro municipalities whose funds have been diverted.”—J 19

§10.—“Unauthorized Expenditure.”

“The annual statements rendered by the Commission to the Honourable the Provincial Treasurer for the years 1909 to 1915, inclusive, afford no actual accounting information and fail to disclose the existence of a large and rapidly increasing unauthorized expenditure in the years 1911 to 1915, inclusive.”—H 2

§11.—“Expenditures were Wholly Illegal.”

“Time and again the Commission has used trust funds in its hands for wholly unauthorized purposes.”—H 5

“In spite of repeated comments by the Auditor on the validity of the action of the Commission, the Commission still continued to make advances out of trust funds in its possession, without authority under the Act or without any special appropriations being made therefor by legislation. These expenditures were wholly illegal.”—H 32

“The money taken out of the funds held by the Commission as trustee in respect of the various power undertakings and used for Radial Railway purposes amounted in all to over one million one hundred thousand dollars (\$1,100,000). This sum, which was held on clearly defined trusts, was taken from the account of the Commission and put into the Hydro-Radial undertaking without the slightest authority and in defiance of the law, and, as Mr. Clarkson says, with no assurance that it would ever be recovered. It is doubtful if any member of the Commission, other than the Chairman, knew at the time that its funds were being used for the radials. No resolution purporting to authorize their use for such a purpose appears in its Minutes and so far as the records go the subject was not even mentioned at the meetings of the Commission. That it should have been possible for anyone to take over \$1,100,000 from the Commission without authority and in clear violation of the statutes, is, indeed astounding. Such a thing is serious, not only because such a large sum was imperilled, but also because it tends to discredit the cause of public ownership.”—J 11 AND 12

§12.—“Diverted Funds.”

“The Commission overspent the appropriations made by the Legislature and diverted funds which it had no authority to use for this purpose. From the beginning the question of cost seems to have been very lightly regarded by it. It obtained and spent money far too easily. It lacked the steady influence of financial responsibility which is always present when those who construct a work have to provide the funds.”—^{s 381}

“The Commission has not only misapplied specific advances from the Province, but it has employed its renewal and other reserve funds on capital account, often upon works of systems other than those in respect of which they are established.”—^{T 124}

§13.—“Campaign Expense.”

“In January last a vote was taken by certain municipalities as to whether or not the Commission should proceed with the construction of the Toronto-Port Credit and the Port Credit-St. Catharines Radials. The Commission entered actively into the campaign in favour of the passage of the by-laws which were submitted, and incurred considerable expense in so doing. The amount which was expended and which was brought to our attention at the hearing held by us reached about \$11,000, but from the evidence given it appears that the actual expenditures far exceeded this figure. Where the remainder came from was not disclosed.”—^{J 12 AND 13}

§14.—“Voted Themselves Salaries.”

“The members of the Commission, although personally having no interest in the Ontario Power Company and but nominal duties to perform as Directors and officers of that Company, voted themselves salaries as such officers, amounting in the aggregate to \$10,000 per annum. Their action in so doing was improper and in violation of the spirit, if not the letter, of the Power Commission.”

—G 56

PART IV

HYDRO-COMMISSION'S STATEMENTS

§15.—“Estimates Far Too Low.”

“We desire to emphasize what appears to be an outstanding feature of this as of other undertakings of the Commission, namely, that estimates prepared by the Engineers of the Commission and submitted to municipalities contemplating entering into contracts with the Commission are almost invariably higher in respect of power loads required and lower as to the cost of power than are respectively the actual power consumed and the actual price charged after contracts have been made.”—**K 25**

“The Hydro System was introduced in Dunnville in 1916 and 1917 to replace a privately-owned system. The price quoted was \$27.77 per horsepower. That was understood to be the maximum figure and the price now is \$50.00. I think we are paying too much for power. \$27.77 is what the people understood was to be the price.”

“This is the old story told us time after time by representatives of various Hydro municipalities of low estimates, and a high cost as compared with the estimates.”—**P 84**

“The actual cost of power from the Queenston-Chippawa Power Development is between two and one-half times the estimated figure given by Sir Adam Beck in his letter to Sir William Hearst before quoted.”—**s 151 AND 152**

“In conclusion it may be stated that everything points to the fact that on the basis of representations as to cost made to the Government in the estimates, the Commission has utterly failed to make good its statements. The work for a six-unit plant, which should have cost about \$52,500,000, will actually cost at least \$64,300,000 after making liberal allowance for the salvage value of construction plant and other adjustments, so the work has cost nearly \$12,000,000 more than it should.”—**s 348 AND 349**

“From the matter of increased quantities and changes in design, the cost of the work would have largely exceeded the estimate even if war conditions had not continued so long.”—**s 380**

“The Commission’s estimate on the Rideau System at High Falls on the Mississippi River was:

“The work contemplated consists of the complete development of the High Falls for 3,000 horsepower, and 22 miles of high tension line to Perth at a total estimated cost of \$340,000.”

“The actual cost of this work exceeded the estimate for it and the high tension line by more than 100%.”—**T 97**

"Not only were the estimates, which were from time to time prepared and submitted or intimated to the Government, based upon unit costs which were far too low for certain important parts of the work, but they were also based upon under-estimated quantities. Ample opportunity was afforded for correction of previous estimates as the work progressed, and actual costs had been ascertained, but the Commission persisted in holding to its original estimates in many particulars, and in informing the Government on different occasions that the estimated cost would not be exceeded."

—T 100

"A statement made by the Chairman of the Commission, November 21, 1907, typical of others that have appeared from time to time down to the present day:

'I desire however, to point out and emphasize the fact that there is absolutely no risk, either to the Province or to the municipalities, that the actual cost of power will exceed the amounts set forth in the by-laws.'

—T 105 AND 106

"The Statements made by the Chairman of the Commission are far from being in accord with results. In a majority of the systems the actual cost has exceeded the estimated cost." —T 110

"The principal estimates of cost of developments submitted by the Commission to the Government have in nearly all cases been far too low. So wide has been the difference between estimates and costs that the estimates would have been submitted as representing the probable cost of the works seem almost incredible."

—T 221

§16.—“Withhold Information as to Cost.”

'If we had to furnish the maximum price and stick right with that particular section of the Act, the scheme would never go ahead because in many cases we would have to put the price so high they would never take it.'

"It seems clear that the intention of the Legislature in requiring the Commission to state a maximum price when submitting estimates was that the municipalities might know the highest price which they would have to pay under any conditions, and the procedure first contemplated should, of course, have been followed. If this course had been followed in each case, a vast amount of bad feeling and misunderstanding would have been avoided."

—P 84 AND 85

"It may be that the Chairman held the view that, if he disclosed the great increases in cost, both present and prospective, to the Government during the earlier stages of construction, it might become alarmed, and the moneys required might not be voted by the Legislature, and, therefore, it was expedient to withhold information as to increases in cost as long as possible and until the Province, through the advances made by it, should be irrevocably committed to the undertaking and would have to see it through

whatever the cost might be. But whatever may have been the reason for the course which the Commission took, nothing which prevented full disclosure and frank understanding between Government and Commission can be justified.”—**s 380 AND 381**

“The belief has been engendered and kept alive in many minds that municipal corporations will acquire complete ownership of the undertakings of the Commission in thirty years and in the meantime are the real owners subject only to payment of certain indebtedness to the Province. There is no foundation for such belief, but it is refreshed from time to time by utterances of an enthusiastic. As recently as December 12, 1923, a newspaper report quotes Sir Adam Beck as saying:

‘Under our present system we have provided for the retirement of the debt on capital investment at the end of thirty years.’

“By way of example, and having regard to the fact that the capital investment in Niagara plants amounts to over 80% of the total capital investment in all the power undertakings of the Commission, out of a total of \$134,000,000 of which but \$25,233,528, or about 19%, is being provided for by a sinking fund on a thirty-year basis, it is clear that the statement just quoted is untrue.”

—**T 68 AND 69**

§17.—“Rosy Predictions.”

“The Hydro-Electric engineers came into Tara in 1915 and 1916 and they told them that the rates would be \$37 per horsepower. We are paying \$90 per horsepower today. We are not paying any sinking fund either.

‘If the engineers when they came into Tara had told us that it would cost as much as it has done, that we would have to pay interest and debenture charges on practically \$60,000 to get electric power into Tara, we would never have taken it.’”—**E 22**

“In 1920, Hanover got a thirteenth power bill that * * * * struck consternation among the users of the Eugenia System.”

‘Instead of paying \$34 we (Mount Forest) are now paying \$65. Some of the engineers were at Durham, and when they were asked anything the reply was, ‘Well we were only estimating.’ They all get out from under.’”

—**E 23 AND 24**

“Unfortunately for all interested in the successful operation of the Ontario Power Company, the records of the Company show that the rosy predictions of the Chairman of the Commission have fallen far short of realization.

§18.—“Duty of Commission.”

“The Commission has stated to us that one of the main reasons leading to the error made in assumed power loads, was on

account of municipalities being over-optimistic as to the amount of power they could consume. This in no way relieves the Commission of responsibility in the matter, for the majority of municipalities throughout Ontario know little of such matters, and place entire reliance upon the guidance and judgment of the Commission and its officials. We believe that it is the duty of the Commission to see that its estimates to the municipalities are based upon loads that may be definitely expected to obtain when the service is installed, and in actual operation. It is little or no comfort to a municipality to be told by the Commission, as many municipalities in Ontario have been told, that, if their load were three times as great as it actually is, the cost of power to them would not be greater than the estimated rate. It is the duty of the Commission to see that all municipalities are dealt with frankly and supplied with actual facts, and not with information based upon hypothetical conditions."—T 111 AND 112

§19.—"Estimate * * * Unsound."

"No Government should accept with confidence estimates prepared by a promoter of a scheme seeking support, even though the promoter may be a public body. If the estimate for the Queenston-Chippawa Development instead of being submitted to outside engineers years after the work was begun, had been submitted to them in the first instance, the Government would have at once found out that it was unsound and could not be relied upon. If it had kept in touch with the work through a representative of its own, who would from month to month have compared actual costs of the work done with the estimates submitted, it would have learned of the increases in cost long before they were brought to its attention by the Commission."—T 229

PART V

FINANCIAL ASPECTS AND LOSSES

§20.—“Cost of Money * * * Main Item.”

“The cost of money employed in undertakings for the production and transmission of hydro-electric power or energy constitutes the main item in the total cost to the producer and distributor of such power or energy.”—A 1

“A change of one per cent in the interest rate makes a very appreciable difference in the cost of power, for instance, in the Niagara System the approximate effect that a change in the interest rate from 5 per cent to 6 per cent makes is that the cost of power is increased to the extent of 20 per cent of 70 per cent of the total cost; and a decrease of one per cent, that is, interest at 4 per cent instead of 5 per cent, means a decrease of 20 per cent of 70 per cent of the cost.”—A 6

§21.—“Interest Rates.”

“Range of effective Interest Rates as at October 31, 1922, applicable to yearly borrowings for period 1915 to 1922, before deducting exchange:

1915	4.947	per cent. to	6.852	per cent.
1916	5.003	per cent. to		per cent.
1917	4.975	per cent. to	6.570	per cent.
1918	5.1749	per cent to	6.326	per cent.
1919	5.1749	per cent to	5.934	per cent.
1920	4.777	per cent to	6.8285	per cent.
1921	5.225	per cent. to	6.8285	per cent.
1922	5.17	per cent to	6.4237	per cent.”

—A 6

§22.—“Interest and Sinking Fund.”

“Interest and sinking fund sometimes represent more than two-thirds of the cost of power. For example, according to the estimates of the Commission with respect to the combined operation of the plants in the Greater Niagara System, interest will represent about 69% and sinking fund about 13% of the total cost of power at the plants located at Niagara Falls.”—Q 85

“There are very few, if any, undertakings of any character, in which interest charges on the capital investment play so important a part in annual cost as in undertakings for the generation of electrical energy. On the basis of the estimates of the Commission we show that interest on the capital invested represents approximately 70% of all the charges entering into the annual cost of generating power in the combined plants, at Niagara.”

“Sinking fund is the next important item and represents approximately 13% of the cost, using a forty-year sinking fund period, while the remaining 17% is distributed amongst operation,

maintenance, depreciation and so forth. From this it is apparent that the capital cost is the main regulator of the annual cost per horsepower." —^s 153

§23.—“Failure to Provide a Sinking Fund.”

“Insofar as sinking funds for the retirement of outstanding bonds are concerned, our study of this matter shows that the Commission has adopted no well-defined or consistent policy in this respect. In some cases no retirement fund is being provided, and where such a fund is being provided the amount accumulated at the maturity of the bonds will not be sufficient to meet the issues as the bonds outstanding become due.” —^P 88 AND 89

“There has been too great tendency on the part of the Commission to defer the time for refunding its obligations. There appears to us no reason why the time for contributions to sinking fund to meet the cost of construction should invariably be deferred for five years beyond the time specified in The Power Commission Act, whatever the demand for power may be.” —^T 220

“The failure to provide a sinking fund for nearly all of the bonded indebtedness in respect of the Niagara developments, which are operated by the Commission as private companies, in the same general manner and to the same extent as is done in respect of cash advances under The Power Commission Act, has been, in our opinion, unsound and unjustified.” —^T 221

§24.—“Destroyed Two Fundamental Principles.”

“As the Province has directly or indirectly advanced to the Commission for the purposes of the Greater Niagara System over \$120,000,000, it is vitally interested in seeing that proper provision is made for the repayment of this large sum, while the municipalities are deeply concerned as to nature and extent of the sinking funds that are established to secure repayment of the advances made by the Province and in the annual contributions to the renewal and other reserves, all of which are immediately reflected in their power bills. Besides, there has been a widespread belief on the part of the municipalities that at the end of a thirty-year or thirty-five-year period they would own the works outright.” —^P 62

“The extension of the sinking fund period in the Niagara System also has destroyed two fundamental principles upon which the Hydro-Electric Power Commission was initiated and developed. The principle that ‘power is supplied at cost on an equal basis to all’ has been discarded and the popular belief that the municipalities will obtain a complete equity in all works serving them within thirty years is now shown to be without foundation.” —^P 80 AND 81

§25.—“Sinking Fund Short.”

“When the present bonds fall due in 1926, new bonds will have to be issued and a new sinking fund should be fixed on a basis provided for the payment of the new bonds at maturity.” —^B 61

"A sinking fund sufficient to provide for the payment of the bonds will not be complete in the expiration of 50 years from May 1, 1921, as the bonds already issued fall due in 1931, and there will be no funds available to apply on them at that time and a new issue will have to be made for the full amount." —c 13

"A study of the operating accounts fails to show any direct provision from revenue for sinking fund to be used to retire bonds for the Ontario Power Company and the Ontario Transmission Company outstanding at October 31, 1922, in the amount of \$10,691,000, and it would appear that funds in the amount of \$872,213.00 representing annual payments of approximately \$180,000.00 used in retiring certain of these bonds up to the end of the fiscal year, 1922, have been to a large extent appropriated out of Reserve for Renewals and that this account had been depleted to the extent of \$725,000 up to the end of 1922.

"If the payments are continued on the same basis they will fail to retire the bonds at maturity in the amount of approximately \$7,000,000, and a means of financing this deficiency will require to be provided before the bonds become due." —G 34 AND 35

"The sinking fund available to meet the bonds of the Company assumed by the Commission, if continued on the present basis, will fall short of providing funds for the retirement of these debentures at maturity to the extent of \$7,000,000." —G 52

"In the statement of expenditure no charge whatever is made for sinking fund, although the contracts with Port Arthur and Fort William provide that a forty-year sinking fund shall be established. We are advised that the Hydro-Electric Commission has no power to defer it; but whether deferred or not, it will have to be paid; if not now, then hereafter." —o 19

"The following shows the approximate amount of sinking fund which will be accumulated at the maturity of six outstanding bond issues and the amounts that will not be provided for but will have to be refunded:

Amount outstanding October 31,	
1922	\$22,774,700
Approximate amount of sinking fund accumulated at maturity of bonds..	5,519,607
Balance not provided for by sinking fund	\$17,255,093" —P 70 AND 71

"The foregoing statement shows that of the bonded indebtedness of \$22,774,700 made up of various amounts, maturing at different dates, only \$5,519,607, or less than 25% of the total amount of these outstanding bonds, will be provided for by the proposed sinking fund accumulations at maturity. The remainder will have to be refunded or otherwise provided for." —P 71 AND 72

"With respect to the sinking fund accumulations that will have been provided by the Commission to repay the expenditure upon the works of the Greater Niagara System, instead of the total

capital investment being repaid at the end of 35 years, sinking funds of only \$96,409,818 will be accumulated within that period and a balance of \$38,973,440 will have to be provided thereafter.”

—P 73

§26.—“Provincial Advances and Guarantees.”

“Summing up, the Provincial advances and guarantees in respect of all Hydro-Electric undertakings may be conveniently classified as follows (cents omitted):

1—Expenditure Chargeable to Province

Made by Commission, paid to it by
the Province and not recoverable
by Province \$ 2,525,663

2—Central Ontario System

Purchased and owned by Province;
operated by Commission 12,117,708

3—Guarantees by Province

Bonds issued or assumed by Com-
mission 42,994,831

4—Cash Advances by Province

Repayable by Commission out of
Revenue 107,282,799

—————
\$164,921,001.”

—Q 66 AND 67

“In the last analysis the guarantee of bonds by the Province is a liability just as direct and just as real as its liability in respect of its own bond issues. In the event of default in the payment of principal or interest in respect of the bonds, payment of which is guaranteed, there is no doubt that the bondholder would look directly to the Province for payment in satisfaction of his claim.”

—T 139

§27.—“Queenston-Chippawa Development Cost.”

“The expenditures of the Commission in respect of the Queenston-Chippawa Development amounted to about \$58,000,000 at October 31, 1921, and about \$65,600,000 at October 31, 1922. The total capital cost with about 550,000 horsepower nominal installed capacity when completed will probably be of the order of \$82,400,000, which will represent the Provincial liability in connection with this undertaking.” —P 14

“The total cost of the Queenston-Chippawa Power Development up to the completion of five units, as nearly as can be determined, is \$63,654,295.49. This figure includes the whole of the completed canal and the intake as well as other portions of the Development which will be used in conjunction with the units to be subsequently installed. It is impossible to subdivide the work so as to determine the cost applicable to the five units only.”

—S 131 AND 132

§28.—“Depleted Fund.”

“The contributions to the renewal of the Company* have been inadequate. The reduction of this fund last December was not only unwise but in violation of sound business and engineering principles. If the revenue of the Company proves insufficient for its purposes any additional amount required should be made up by increasing the charges for power and not by drawing upon a reserve already too small. The amount taken from the renewal reserve last December should be restored and this depleted fund placed upon a sound footing.”—**g 52**

§29.—“Losses on Operation.”

“The losses on operation up to October 31, 1922, amounted to \$207,167.98.”—**b 30**

“In addition to the deficit there has been a loss represented by the difference between the property sold or scrapped and the book values thereof amounting to \$171,395.15.”—**b 31**

“The gas plants bought by the government located at Cobourg, Napance, Oshawa and Peterborough, have losses from operation up to the year ending October 31, 1922, amounting in all to \$108,430.62.”—**b 38**

“The losses on operation for the year ending October 31, 1922, including installation on account of purchase price payable to the City of Guelph, but not including provision for renewals for 1922, was \$23,574.32, and for the 18 months ending October 31, 1922, was \$34,225.64. Had provision been made for renewals in 1922, an additional operating charge of \$6,600 would have been incurred bringing the losses for the year to \$30,174.32.”—**c 9**

§30.—“Cost * * * Exceeds the Amount Received.”

“If the profits on exchange since October 31, 1914, be not taken into account, the cost to which the Province has been put since that date in providing moneys for the undertakings of the Commission exceeds the amount received by it from the Commission by \$1,244,393.23, and that if the profits received by the Province for exchange arising in connection with transactions relative to loans issued subsequent to November 1, 1914, are taken into account the cost to which the Government has been put in excess of the amount received by it from the Commission is \$643,271.46.”—**A 17 AND 18**

§31.—“Deficit Continued.”

“The Hydro-Electric Railway Act provides that the Commission shall annually require the respective municipalities to pay the deficit, if any, and further provides that in the event of the failure of the municipalities to pay the Commission shall thereupon sell or otherwise dispose of so much of the debentures that shall be necessary to supply such deficiency. But the Commission did not either receive payment from the municipalities or sell the bonds and the deficit continued as an outstanding liability.”—**D 16**

*Ontario Power Co.

§32.—“Exemption from Taxation.”

“The parties appearing before us at Niagara Falls presented a statement which showed that the plant of the Niagara Falls Power Company located in the City of Niagara Falls, New York, was assessed in 1923 for \$31,896,010, or nearly one-third of the total assessment of the city, which amounted to \$104,909,000. The company appears to have paid in taxes to the city in that year \$601,487.16 out of a total of \$2,250,084.90 in taxes collected by it.”

—T 161 AND 162

“The exemption from taxation given under the Assessment Act results in lowering the cost of power to the consumers, but the gain to the consumers is equalled by the loss to the taxpayers of the municipalities in which the developments are located. Just why taxpayers of Niagara Falls and the Township of Stamford should pay higher taxes in order that the municipalities of the Niagara System should get cheaper power is a question that does not seem to have been answered to the satisfaction of the taxpayers.”

—T 162

“The complaint that the operations of the Commission are specially favored in respect to taxation as compared with those of private companies was definitely brought to our attention by officials of the Ottawa Electric Company, who appeared before us at one of our public hearings. The City of Ottawa exemplifies, perhaps most clearly, the possibility of discrimination arising in respect of the present method of taxing the works of the Commission. As stated in our report on the Ottawa System, the Commission is supplying power to the municipality in the same manner as it supplies other centres throughout the Province. In addition, however, the Ottawa Electric Company, a company that has long established, is providing a similar service to a great number of consumers within the municipality, yet the private company must pay all taxes applicable to its operation.”—T 163

§33.—“Unhappy Farming Operations.”

“During the year which ended October 31, 1919, the Commission sustained a loss of \$53,408.63 in connection with its farming operations during that year. In all their losses from farming reached \$109,123.42. This loss does not include interest on the cost of the lands so they were operated practically rent free. These operations were carried on in connection with lands acquired in the purchase of right-of-way for the Queenston-Chippawa Power Development. In carrying on these operations the Commission purchased equipment, supplies and livestock, and sold the produce raised. The Auditor in his report for the year 1918 states that there is no provision in the Act which empowered the Commission to undertake farming operations or to expend money for such purposes. The Auditor further informs us that during the first year deficits arising out of these operations were charged against the Queenston-Chippawa Development costs.

"It was unnecessary for the Commission to carry on these unhappy farming operations itself. It would have been much better for it to have leased the properties at a trifling rental, or in fact no rental at all, to capable men who would have worked the properties themselves, than to have undertaken farming on its own account. Had this course been followed the lands would have been kept in just as good condition, and probably in much better condition, than under the Commission, and the loss referred to would have been saved." —H 29

§34.—"Expenditures * * * Not Recoverable."

"Expenditure chargeable to Province \$2,525,663. This sum represented expenses incurred by the Commission in respect of engineering assistance and estimates prepared for the municipalities not under contract; general surveys; excess of expenditures over revenues arising in connection with the Electrical Inspection Department, investigations, surveys and so forth in respect of Hydro-Electric Radial Railways and other matters, together with that portion of the Chairman's salary which is paid by the Province. The amount is not recoverable but will remain a contribution by the Province as a whole toward the undertakings and works controlled or managed by the Commission unless the municipalities, which are interested, decide to take power, or the proposed railways are constructed, in which case a small part of the above amount may be repaid to the Province." —T 134

§35.—"Interest * * * Loss * * * Not Included."

"The Province, when borrowing funds for the Commission, pays interest from the date that it receives the money, but it frequently holds a large portion of the borrowed money for the Commission until such time as the Commission may require it, paying the full rate of interest on it but receiving only bank interest itself. No part of the loss has been charged the Commission although it is incurred through borrowing for it. It is not included in the amounts with which the Commission is charged."

—A 18 AND 19

